85 02103

Dated, but concept is clearly illustrated

The Mendocino County Superintendent of Schools

MENDOCINO COUNTY SCHOOLS HEALTH PLAN

INTRODUCTION

The following plan will work best if the employee group is fully covered (i.e., "first dollar" coverage).

The main intent of the plan is to reuse budgeted health insurance dollars so that money becomes available for program purposes. This is to be accomplished without loss of medical coverage to the employee. To achieve these ends, this plan is set up to

1) create a partially self-insured program to provide medical coverage for employees and dependents;
2) keep a portion of the money previously paid out as premiums "at home" earning interest for the home agency or corporation;
3) introduce a "stay-well" incentive factor that will encourage employees to use as little of the "at home" portion as possible;
4) shelter a portion of current and future costs of health and medical insurance from inflation;
5) and by these means, contain the rising costs of the County Schools Office of health-medical insurance.

MAIN FEATURES OF THE PLAN

Under the standard plan for full medical and health insurance coverage that we have purchased in the past, we would have budgeted for this current year

$\boxed{\$\ 203{,}000}$ -> to insurance company

all of which goes to the insurance company.

Under the new Mendocino Health Plan we will budget

to local health account <- $\boxed{\$80{,}000 \mid \$123{,}000}$ -> to insurance company

to local health account for use for first $500 of employee medical expenses. It is administered by our office on presentation of allowable claims by employees and eligible dependents

to insurance company to provide $500 Deductible Group Major Medical Coverage

$203,000

Each year, our office would

1. set aside $500 per employee in the Local Health Account; and
2. secure a $500 Deductible Group Major Medical policy to cover employee health expenses after the first $500.

The cost to the office of both plans this first year is the same. But after the first year, we anticipate that a compounding of savings will result which may amount, in our case, to one-half million dollars over the next ten years.

How the savings would result:

From the Local Health Account, savings would derive from

1. INTEREST earned on the account held locally; and
2. UNSPENT amounts within this account. We are assuming that all employees will not spend the entire $500 held in their names. Thus any amount less than the budgeted $80,000 remaining in the account at the end of the year will be, in effect, "savings," and will be carried over to the following year.

From the $500 Major Medical Policy, indirect savings would derive as follows:

The cost of coverage will most probably increase over the next several years because of inflation. In our new plan $123,000 will be affected by inflationary increases. However, if we had maintained our original standard full coverage policy, $203,000 would have been subject to increase. So, by alloting a portion of the original cost amount to a locally administered account - an amount that will be held constant at $500 per employee - we will have sheltered that amount from inflation and will, in fact, reduce the cost of future full health insurance coverage.

How the Local Health Account is maintained

Each year $500 per employee will be budgeted to this account and will be held in the name of each employee. The employee may have that money used to pay legitimate* claims for his health costs. Any costs above $500 (up to one million) will be paid by the insurance company providing the Major Medical policy.

The employee may or may not use up his entire $500 amount. If he does not, the amount remaining in his account at the end of the year will be carried over to the following year, still held in his name. This means that, if he has $300 remaining, the following year he will have $800 in the account in his name, $500 of which he can use for medical expense. Since he can use only $500, he will always carry ahead the original or any previous year savings. If he uses less than the $500 in the second year, he will carry forward that savings also. A third $500 is then budgeted the third year and so it goes as long as he remains an employee.

*Allowable expenses will be determined by the local Medical Foundation which administers claims under policies of all major carriers. The same benefits will be allowable under the locally administered $500 first dollar coverage as are currently allowed under the $500 deductible policy of the insurance carrier.

MENDOCINO COUNTY OFFICE OF EDUCATION

"STAY WELL" HEALTH PLAN

ADMINISTRATIVE PROCEDURES

I. Eligibility To Enroll

A. Coverage for qualified employees shall begin on the first day of the month following the month in which their employment or service begins, except that those persons employed on or after the eleventh (11th) day of the month shall become eligible on the first day of the second month following employment or service.

B. Persons employed in a temporary status are not eligible. Regular employees working less than 20 hours per week are eligible to enroll in the plan, but must pay their entire costs.

C. Persons employed in a regular status and working 20 hours per week or more are eligible for enrollment in the plan as follows:

1. Those regularly employed for 30 hours per week or more are eligible to enroll in the plan with 100% of the cost paid by the employer.

2. Those regularly employed 20-29 hours per week are eligible to enroll in the plan with 75% of the cost paid by the employer.

3. Regularly employed persons working less than 20 hours per week and covered on a pro-rata basis under the previous Blue Cross 365+ plan are eligible only if they were employed as of June 30, 1979 and may elect to continue their coverage in the "Stay Well" plan under what is commonly called a "grandfather" provision.

II. Premium Structure & Implementation

A. The "Stay Well" plan provides for two (2) levels of insurance:

1. A major medical policy that pays, within the limits provided by the policy, the covered medical expenses of the insured person or persons after -

2. The first $500 of covered expenses have been paid in the aggregate for the insured employee and/or dependents. This $500 deductible requirement renews each policy year.

B. The policy or contract year is for the period beginning July 1 of each year and terminating on June 30 of the following year.

C. The employer, Mendocino County Office of Education, assumed the responsibility to underwrite the $500 deductible risk by creating a Medical Deductible Trust Fund from which to pay the covered medical expenses subject to the deductible requirement.

D. In order to charge the cost of the employee medical benefits to the various programs operated by the County Office of Education a monthly premium rate per insured employee was implemented as follows:

MONTHLY PREMIUM SCHEDULE

HOURS WEEK WORKED	% of COVERED COSTS		MAJOR MED PREM	DEDUCTIBLE TRUST FUND	DENTAL PREM	TOTAL EMPLOYER COSTS
20-29	75%	Employer Pays	141.30 ~~$133.93~~	-0-	25.50 ~~$22.50~~	'84- 162.73 ~~$156.43~~ -'83
		Employee Pays	-0-	$500.00	$ 8.50	
30+	100%	Employer Pays	141.30 ~~$133.93~~	$ 41.67	34.00 ~~$30.00~~	216.97 ~~$205.60~~
		Employee Pays	-0-	-0-	-0-	

For those employees in the 20-29 hours per week category, the employer would pay the monthly major medical premium of $133.93 per month to Blue Shield. These employees would be obligated to pay the first $500.00 of covered expenses during the year.

E. Temporary employees working 20 hours per week or more and achieving regular status during the contract year may enroll in the plan and be covered for benefits thereunder on the 1st of the month following placement on regular status.

F. Less than 20 hour per week employees on regular status will be eligible to enroll in the plan if they pay their entire amount of the cost to the insurance company and carry their own $500 deductible. If they are assigned additional hours in regular status beyond the minimum requirement for eligibility of County Office participation, the effective date of coverage would be the 1st of the month following the month in which eligibility was achieved.

(Rev. 7/1/83)

updated 10/12/84

The <u>Stay - Well feature</u> is this:

At the time the employee leaves the office, he may

1) take as "severance" pay any unspent amounts that have accrued to his name in the Local Health Account, or
2) have those remaining funds purchase continuing health insurance to the extent that his "savings" can cover the cost.

We believe that the employee knowing that he stands to benefit personally from any unspent allowances, will use more discretion in incurring future medical expenses. He may even choose to pay some medical costs himself, electing to gain income tax benefits instead of depleting the funds set aside in his name.

Important conditions:

- At no point is the "savings" considered salary since it is unrelated to the work he does;
- At no point is the "savings" or the $500 set-aside affected by retirement or pension plans since the amounts are unrelated to his salary.
- The money in the Local Health Account does not "belong" to the employee at any time during his employment. Therefore
  - a) he gets no interest on it (he only benefits from "savings" from the $500 yearly allotment budgeted in his name)
  - b) he cannot borrow on or withdraw any part of the funds held in his name during his term of employment
- He can not realize any "savings" until after he has been in the plan for a full year, nor can he benefit from any current $500 allotment during the year in which he ceases to be an employee of the Mendocino County Schools Office. He can only benefit from unspent amounts for previous full years of employment.

G. Any employee who becomes eligible during a contract year and who, by reason of a reduction in hours, falls below the 30 hour per week 100% level, or the 20 hour per week 75% level, may elect to pay the entire amount to the insurance company in order to continue coverage for the balance of the contract policy year. This does not apply to a reduction in hours occurring within the first three (3) months of the contract policy year. In this case, a reduction in hours worked per week that is effective during the period of July 1 to September 30 would require a reduction to the appropriate eligibility level for such persons. The effective date for such change in eligibility and coverage would be October 1.

H. Employees satisfying the eligibility requirement but who are in positions that are wholly categorically funded may enroll in the plan provided that the cost to the employer is included in the budget for the categorically funded program.

III. Vesting

A. In a group health insurance plan there are members of the group who are fortunate enough to possess good health and therefore make little or no claim on the insurance benefits provided to them. These members in effect subsidize the less fortunate members of the group and the collective experience of the group as a whole is what determines the premium that an insurer charges.

B. When the insurance provided by the employer has reached the level whereby full coverage is extended to both the employee and his or her family at no cost to the employee, then all restraints on utilization are removed and the average employee loses interest and perspective on the cost of the program. This tends to encourage maximum utilization of the insurance by both the insured and the medical providers with the inevitable result of increased premiums.

C. The heart of the "Stay Well" plan was the concept that a potential reward existed for those members of the group who, in a given year, had little or no utilization of their insurance benefit. This potential reward would be monetary and funded from the unused portion of the Deductible Trust Fund. The process by which an insured employee can acquire, under certain conditions, a right to a sum of money is called "vesting".

D. In the "Stay Well" plan the vesting process is applicable to the unused portion in each contract year of the Deductible Trust Fund. Apart from creating an awareness and incentive toward good health, the vesting process is also intended -

1. To provide a potential sum of money to an employee, upon retirement or change of employer that could be used to pay the current premium and continue his or her medical coverage and membership in the group. In the case of a change of enployer, membership and coverage in the group may be continued for a period not to exceed three (3) months. In the case of retirement, the sum vested may be used to continue coverage until exhausted, after which the premium for continued coverage means the employee is obligated for both the $500 deductible and major medical premium. Any vested sum may also be used to continue coverage in the self-insurance dental plan provided by employer.

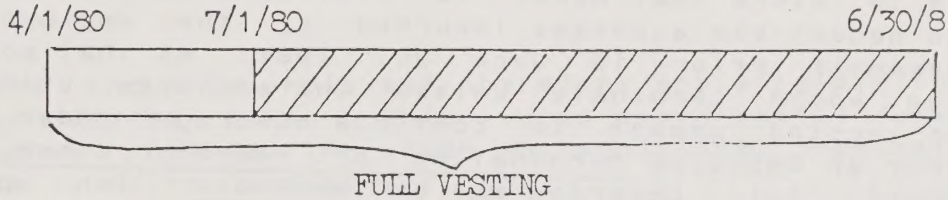
2. To provide a potential sum of money as a form of severance pay to a terminating employee.

3. Upon completion of a contract year the aggregate of the unused deductible amounts attributable to those employees who had a full year of coverage for that policy year will be transferred on July 1 from the General Deductible Trust Fund to a separate Vested Trust Fund identified with each employee vested therein.

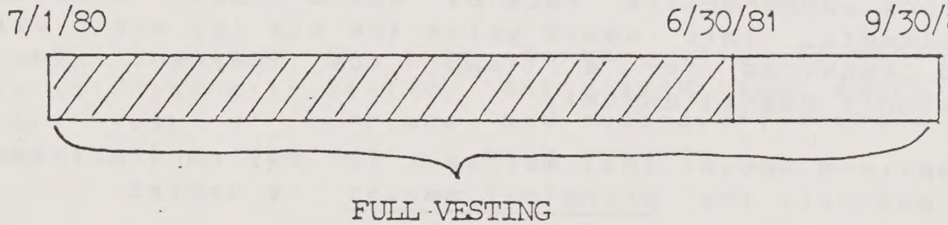
4. In addition, if an employee was covered for less than one full policy year prior to or after being covered for one full year, the unused amount of the General Deductible Trust Fund will also be transferred to the same vested fund identified for each employee vested therein.

"VESTING EXAMPLES"

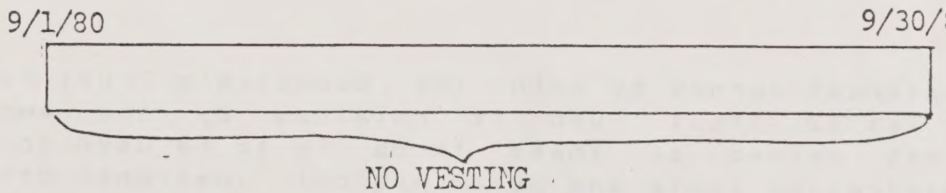
(a) If an employee comes to work on April 1, 1980, and works through June 30, 1981, he or she now has 15 months of vested credit, less any medical claims for that period.



(b) If an employee comes to work on July 1, 1980, and works through September 30, 1981, he or she now has 15 months of vested credit, less any medical claims for that period.



(c) If an employee works <u>only nine months total</u> from September 1, 1980 through June 30, 1981, he or she receives <u>no</u> vested credit for his or her service.



5. Constructive receipt by an employee of his/her vested amount can occur only upon termination of employment. However, any amount vesting for the contract year immediately preceeding the year of termination will not be due and payable until six (6) months following termination. For example, an employee has completed five full years of coverage on July 1, 1984, and terminated employment on September 30, 1984. The amount that vested for the 5th contract year ending June 30, 1984 would not be payable until January 1, 1985. This is to insure that money is available to pay for any covered deductible expenses incurred by the employee in this example prior to June 30, 1984. At that point, coverage would terminate unless the employee utilized his/her vested amount to continue coverage under the plan For an Employee terminating for reasons other than retirement, full coverage may be extended for up to three months after terminaton providing the employee paid the major medical premium and any required deductible during the extension period. For a retiring employee, coverage may be continued indefinitely as long as the retirant paid the major medical premium and any necessary deductible. Vested funds may be used for this purpose, and since constructive receipt would occur monthly in installments, this would waive the six (6) month waiting period required for a lump sum payment for the last-year's vested amount.

6. The maximum amount that may vest for any contract year is $500, and only the principal amount is vested.

7. In the event of an employee's death before retirement, any of the vested, unused portion of his/her side account will be assigned to employee's designated beneficiary, six months following employee's death. It is the responsibility of the employee to sign a beneficiary statement.

8. All interest earned by both the Deductible Trust Fund and the Vested Trust Fund is retained by the employer. Interest earned by these funds is to be used to defray administrative costs and major medical insurance premiums. This would be a direct benefit to employees covered under the plan at less than the 100% level by reducing the amount they are required to contribute. It would also be a benefit to all employees by diverting general fund money from insurance premium payments to educational programs and services.

IV. Husband/Wife Employees

A. The major medical insurance policy purchased to implement the "Stay Well" plan provides for a single composite premium rate of $133.93 per month for each covered employee. The $500 deductible portion of the policy is a family deductible. This means that an employee and his/her spouse and dependents are exposed to only one $500 deductible each year for the family as a unit.

B. Husband and wife employees therefore are eligible for only one policy between them. This is to avoid costly duplication of insurance premiums for which no additional medical benefits accrue to either employee.

C. In the event single employees who are enrolled in the plan become married to another fully covered county office employee whose cost for such coverage is provided by the office, then one of the policies becomes redundant and will be terminated. That person will then be enrolled as an insured dependent on the retained policy.

D. The amount vested to each person prior to marriage would remain as originally vested. Any vested sum accruing in the contract year of marriage and subsequent thereto would vest half and half in the name of each spouse.

Louis G. Delsol

LOUIS G. DELSOL

MENDOCINO COUNTY
LOUIS DELSOL · SUPERINTENDENT OF SCHOOLS
589 LOW GAP ROAD · UKIAH, CALIFORNIA 95482

October 4, 1982

To Whom it May Concern:

We have found it possible to meet most requests for presentations at group meetings, workshops and conferences. Either Louis G. Delsol, Superintendent of Schools or Mr. Ed Nickerman, Assistant Superintendent can arrange to make presentations on our Mendocino County Schools Health Plan if given adequate notice. These presentations can run from 45 minutes to 2 hours. Of course, reimbursement for expenses will be required.

To make arrangements for visitations to our Ukiah Office or requests for speaking engagements at your location, please contact Claudia Lynn at the above address or by calling 707/468-4425.

Sincerely,

Claudia Lynn

Claudia Lynn
Administrative Secretary

707/468-4231

v. 9/24/85

Here's Your Verdict

Opinions, some skepticism

Readers Applaud Superintendent's Stay-well Health Insurance Plan

COST-CONSCIOUS school executives (and what self-respecting administrator *isn't* cost-conscious, these days?) overwhelmingly approve of a stay-well health insurance plan now being used in Mendocino County (California) schools. (Superintendent Louis Delsol wrote about the plan in our February issue.)

Under the Mendocino medical insurance program, the amount of money paid to the school system's insurance carrier was slashed and the savings placed in a local account that pays the first $500 of any employe's legitimate medical costs. The school system then earns interest on the unspent balance, and employes who don't use their annual $500 allotment receive the accumulated money as a bonus when they leave the school system. Delsol says the cash bonus acts as an incentive for employes to stay healthy.

Ninety-three percent of readers responding to our call for "Your Verdict, Please" thought Delsol's stay-well insurance plan was a healthy idea for ailing school budgets. This comment from a superintendent in California is typical: "With the dollar cuts we face in California schools, this is a good way to reduce expenditures and make a few bucks at the same time. Also, it appears to be a way of recognizing those staff members who don't 'take advantage' of their fringe benefits."

Most school people who endorsed the Mendocino County plan cited financial advantages. "Schools have been paying for insurance of all kinds for far too long," says a Washington superintendent. "I'm for any innovation that allows schools to spend a greater portion of the budget on students." An Iowa reader agrees: "It's one way to break the cycle of constantly increasing medical insurance costs. And we should take advantage of any break we can find." From another reader: "The stay-well plan seems an excellent way to reapportion insurance dollars. In fact, I'd be in favor of examining a plan that allows a district to be totally self-insured." And from a former teacher: "I agree with the concept from the employe viewpoint. Personally, I would have liked receiving a lump-sum severance 'bonus.' As it turned out, I taught for ten years and never once used Blue Cross/Blue Shield or any other insurance. True, I *was* healthy: but I sure could have used the cash for other things when I changed jobs."

Besides financial considerations, readers also noted other pluses of the stay-well plan. "It should reduce abuse of sick leave," says a Utah reader. "Perhaps school people will learn to be more responsible for their own health," says an administrator in Indiana, who adds: "Industry already is beginning to pick up on this; maybe such an incentive is just the prod we need." From a Michigan administrator: "It sounds like a great way to help improve employe morale. One might even consider paying for sick days not taken at the end of the year."

One superintendent in Nebraska described a similar insurance plan his own school system devised: "The major differences," he says, "are (1) that accumulated savings in the local insurance account are used to improve benefits, and (2) that an insurance consultant handles the paperwork and periodically puts the major medical coverage out for bids to realize the best deal possible."

Opponents of the stay-well plan most often cited the possible adverse effects the plan could have on employes' health. "Frivolous medical expenses—is there such a thing?" asks one reader. A California administrator cautions: "Such a program will stop the use of preventive medicine because employes will hold back from proper care just to build a 'nest egg.' " Says a Kansas reader: "It's unfair to tempt employes into staying home and doctoring themselves just to save a part of their $500."

Other readers questioned the savings potential of the Mendocino plan because of the extra record keeping involved. Another complaint: "It is irresponsible to take a program covering only 160 employes and project savings for large districts. Increasing insurance costs—and increased record-keeping costs—undoubtedly will be higher than anticipated. Show me the results in three years."

Finally, this prediction from an Illinois superintendent: "I like the concept, but I see a bug: How long will you be able to *keep* the interest on those investments? I suspect the teacher union already is placing designs on the interest money to be given to those teachers who leave. 'After all,' they'll say, 'it's our money you're investing.' " ■

not tr[ue] It's their money only if they get sick, or when

General Information

Employes Who Stay Healthy Save Money With This Self-Insurance Plan

BY LOUIS DELSOL

As BOSTONIANS expect a parade on St. Patrick's Day, and New Orleanians prepare for revelry during Mardi Gras, we Californians brace for passage of spending and funding lids on Election Day. So, as a result of Propositions 13 and 4, Mendocino County (California) school officials have invented a way to save school dollars through a new approach to health insurance coverage. And any school system can do it—without adding a single staff member or spending one additional dollar.

Our self-insurance plan with its unique "stay well" incentive contains remarkable advantages for the school system, its employes, and the insurance company.

How the plan works: Under the standard health insurance coverage that Mendocino County schools previously purchased, we would have had to pay $203,000 for full, or "first-dollar," coverage for our 160 employes. That entire amount, of course, would have been paid to an insurance company. Under our new plan, we have budgeted the same $203,000 for health coverage, but we'll put $80,000 of that into a "local health account," keeping it under our control. We will pay the remaining $123,000 to an insurance carrier (Blue Shield), contracting for a $500-deductible group policy for major medical coverage. In other words, the schools will pay (from our local health account) the legitimate costs for the first $500 of an employe's yearly medical expenses. The insurance company will cover any costs in excess of that amount. So as not to be bogged down in paperwork, we've contracted with a local medical consulting agency to handle all claims, bill processing, and other administrative tasks.

How the employe wins: The key to the plan is its "stay well" incentive, a feature that seldom is part of conventional group health plans. The schools allocate $500 annually for each employe (a total of $80,000 in our case); this is deposited in a local health account. If the employe does not spend the entire amount during one year, the amount not used will be carried over to the following year. Because he need use only $500 from his account in any one year—Blue Shield covers anything above that amount—the employe carries ahead any unused amounts from previous years.

On leaving our employment, the employe may take as "severance pay" any unspent amount that has accrued to his name in the local health account, or he may buy into the program after leaving his job. So: If someone works for the Mendocino schools for five years and maintains a perfect bill of health, on leaving the schools he'll receive $2,500. (We do not officially call this money severance pay because the health insurance package is not legally considered salary. Of course, on leaving the schools and receiving the unspent health premiums, the employe is expected to report this income to the I.R.S.)

> **YOUR VERDICT, PLEASE**
> Here's an article you may find controversial. Let us—and your colleagues in school management—know whether you love it or loathe it. Turn to the postage-paid card facing page 42, and give us your verdict. We'll publish the results in a later issue of THE EXECUTIVE EDUCATOR.

We believe employes will be careful not to incur frivolous medical expenses (because they stand to benefit from unspent funds). To allay criticism that the plan discourages sound practices of preventive medicine, we provide each employe with a booklet prepared by Blue Shield, which describes conditions under which people ought to seek medical care.

How the employer benefits: First, the employer gains the interest earned on the funds deposited annually in the local health account. And because we're assuming that *all* employes will not spend the *entire* $500 deposited in their names, we'll realize additional interest over the years from the unspent accumulations. This interest money will help us realize our major goal for the plan: to "reuse" dollars budgeted for health insurance so that money becomes available for educational programs and services. (We stand to earn from $500,000 to $750,000 over the next decade.)

An indirect savings will come from the "sheltering" feature made possible by the local health account. In our new plan, only the $123,000 that we pay to Blue Shield, which amounts to about 60 percent of our total health insurance bill, will be subject to inflation. Had we continued our old policy, the full $203,000 would have been affected. Our local health account, then, will shelter approximately 40 percent of our health insurance costs from inflation. And at the double-digit inflation rates currently being passed on to consumers by health insurance carriers, that savings can be substantial.

How the insurance carrier benefits: According to people who watch the industry, one of the main fears in the insurance business today is that it is going to price itself right out of the market, allowing the government to come in as the only health insurer. The self-insurance feature makes private insurance programs more affordable.

To the best of our knowledge, Mendocino County schools are the first in California to devise a self-insurance policy for its employes. One important tip for some schools: While talks were under way with Blue Shield, our central office kept employe representatives apprised of progress; other school systems that might want to consider similar self-insurance plans probably will have to negotiate with their teacher union because health insurance usually is a negotiable fringe benefit.

Any size school system ought to be able to adopt a health insurance plan like ours in Mendocino County. For more details, write to me at 589 Low Gap Road, Ukiah, Calif. 95482. Also, the Group Sales Division of Blue Shield in San Francisco can provide further information. ■

Louis Delsol is superintendent of schools in Mendocino County, Ukiah, Calif.